

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-06 FRB-01

INR-07 NSAE-00 RSC-01 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-03 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 PA-02 PRS-01 USIA-15 /093 W

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R 232242Z OCT 74

FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC 5418

INFO AMCONSUL MEDELLIN

AMCONSUL CALI

UNCLAS BOGOTA 9485

EO 11652: NA

TAGS: EFIN, CO

SUBJ: GOC REVERSES MONETARY POLICY TO INCREASE CREDIT

REF: BOGOTA 8491

1) GOC IN SERIES OF MONETARY RESOLUTIONS DURING PAST WEEK  
MOVED TO LOOSEN CREDIT RESTRAINTS IMPOSED DURING PAST TWO  
MONTHS. MEASURES INCLUDE THE FOLLOWING:

A) REVERSAL OF DECISION FOR OPEN-MARKET SALE OF TREASURY  
BONDS. BONDS WILL NOW BE PLACED WITHOUT DISCOUNT IN  
COMMERCIAL BANKS AND WILL COUNT TOWARD MEETING RESERVE  
REQUIREMENT.

B) OPENING OF LINE OF CREDIT FOR SAVING AND LOAN CORPORATIONS  
IN CENTRAL BANK TO COVER DEPOSIT WITHDRAWALS.

C) REVERSAL OF REQUIREMENT THAT COMMERCIAL BANK RESERVES COVER  
100 PERCENT OF BRANCH DEPOSITS IN OTHER COUNTRIES.

D) REINSTATEMENT OF FOREIGN BORROWING FOR PRE-EXPORT FINANCING  
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PROVIDED THAT REPAYMENT PERIOD IS AT LEAST FIVE YEARS, AND

REINSTATEMENT OF BANK AND SUPPLIER CREDITS FOR CAPITAL GOOD IMPORTS.

E) INCREASE OF PRO EXPO'S LINE OF CREDIT WITH CENTRAL BANK FOR EXPORT FINANCING BY 300 MILLION PESOS.

2) EFFECT OF ABOVE MEASURES COULD BE SUBSTANTIAL INCREASE IN MONEY SUPPLY DURING REMAINDER OF YEAR. PLANNED PLACEMENT OF ONE BILLION PESOS IN TREASURY BONDS WILL ESSENTIALLY BE DRAWN FROM RESERVES DEPOSITED IN CENTRAL BANK AND THUS HIGHLY EXPANSIONARY. ABOLITION OF RESERVE REQUIREMENT ON FOREIGN DEPOSITS MAY LIBERATE 200-300 MILLION PESOS IMMEDIATELY FOR NEW LOANS, BUT PRIMARY EFFECT WILL BE TO ELIMINATE PREVIOUS INABILITY OF TWO MAJOR BANKS TO MEET RESERVE REQUIREMENTS (LARGEST BANK WAS REPORTEDLY OVER ONE BILLION PESOS SHORT). SINCE THIS REQUIREMENT IS BEING ELIMINATED OVER A PERIOD OF SIX MONTHS, TOTAL CREDIT EXPANSION SHOULD BE ABOUT ONE BILLION PESOS. LINE OF CREDIT TO SAVING AND LOAN CORPORATIONS WAS REQUIRED TO MEET LIQUIDITY CRISIS STEMMING FROM MASSIVE WITHDRAWALS. GOC IS ALSO ATTEMPTING TO BOLSTER DEPOSITOR CONFIDENCE BUT TOTAL MONETARY IMPACT UNCERTAIN. REINSTATEMENT OF FOREIGN CREDITS FOR BOTH IMPORTS AND WORKING CAPITAL FOR EXPORT SHOULD SUBSTANTIALLY REDUCE SQUEEZE ON LOCAL CREDIT. TOTAL MONETARY IMPACT IS DIFFICULT TO QUANTIFY BUT BANKING OFFICIALS EXPECT DIRECT AND INDIRECT EFFECTS TO AUGMENT MONEY SUPPLY BY ABOUT ONE BILLION PESOS DURING REMAINDER OF 1974.

3) WHILE COMMERCIAL BANKS ARE PLEASED WITH THE PROSPECT FOR CREDIT EXPANSION, THEY ARE ALSO WORRIED THAT THE CONSIDERABLE INCREASE IN CREDIT RESOURCES MAY HAVE A SHORT-TERM INFLATIONARY IMPACT. NEW REGULATIONS ARE SHARP REVERSAL OF PREVIOUS GOC EFFORTS TO COMBAT INFLATION BY MONETARY RESTRICTIONS. SOME LIBERATIONS WAS CLEARLY REQUIRED AS DOMESTIC CREDIT HAD BECOME ALMOST NON-EXISTENT. THROUGH MID-OCTOBER TOTAL INCREASE IN MONEY SUPPLY DURING 1974 WAS ONLY 4 PERCENT DESPITE AN INFLATION OF AROUND 20 PERCENT. THE NEW MEASURES COUPLED WITH THE NORMAL CONCENTRATION OF OFFICIAL EXPENDITURES DURING THE LAST QUARTER (ALTHOUGH PERHAPS REDUCED FROM PREVIOUS YEAR LEVELS) SHOULD SERVE TO INCREASE MONEY SUPPLY BY AT LEAST 12 PERCENT FOR THE ENTIRE YEAR. THE EMBASSY UNDERSTANDS FROM MONETARY OFFICIALS THAT THE NEW

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ADMINISTRATION'S GOAL FOR FUTURE YEARS WILL BE AN INCREASE OF 15-19 PERCENT PER YEAR, OR CONSIDERABLY BELOW THE 27-28 PERCENT LEVEL OF 1972-73. VAKY

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